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are no longer the answer. They are counting on further Western economic aid

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hope that additional trade with the East would open up extensive re-export opportunities, permitting Yugoslavia to "switch" or barter or come up with hard currencies through manipulation of trade. There is a growing tendency to overlook violations in strategic trade, and the feeling is general that strict enforcement of controls on the part of the Yugoslavs would not mean greater concessions from those who urge compliance.

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4. Yugoslav agricultural leaders are counting on a good harvest year to solve their most pressing problems. There is no intention to forego the eventual socialization of the agricultural sector, but leaders recognize that only compulsion can bring it about and compulsion of the peasants they cannot afford at this critical time. In the meantime, they are charging peasants and other sectors of the economy with waste and inefficiency and are following up the charges with fines, publicity, and stronger economic controls. Maladministration of various sectors of the economic program is one of the most serious handicaps today and an intensive educational program is under way to correct the most flagrant abuses.

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5. A general complaint in Yugoslav commercial circles is that "decentralization is only a fake". Numerous commercial enterprises find themselves under more stringent federal restrictions than at any time in the past seven years. This is particularly true where foreign credits are involved and in enterprises engaged in imports and exports with the West.

6. Yugoslav are most keenly interested in the international picture and Yugoslavia's role in international affairs. The feeling is that an indefinite period of peace is at hand and that Yugoslavia will take an increasing number of steps to solidify its role as one of the great neutrals. Influential Yugoslavs have expressed the view that the West should accept Soviet overtures for peace at face value. They believe that the Soviet move to conclude the treaty with Austria was a significant change in Soviet policy and that the decision to pay a state visit to Tito could not fail to impress other would-be independent and neutralist powers with the good intentions of the present Soviet leadership. Even the peasants are responding to Tito, as an individual, as his personal prestige has reached its highest level since he came to power. Some Yugoslavs have expressed the opinion that Tito is closer now than ever before to achieving his dream of a Balkan Federation.

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fully expected Tito to be given the green light during the Soviet-Yugoslav talks (possibly in exchange for Yugoslav support of a Soviet-sponsored move for a united but neutral Germany). Federation in the Balkans would vastly strengthen Tito vis-a-vis Greece and Turkey in the Balkan Alliance. On the other hand, there are few supporters of the Balkan Pact except as a piece of paper.

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10. The current demobilization program involving some 75,000 officers and non-commissioned officers in the Yugoslav Army is not so much a demobilization as a purge of unreliable elements. Vacancies are promptly filled by vigorous, well-trained youth dedicated to Titoist Communism. At the same time the Yugoslavs have an extensive civilian mobilization program with regular classes for youths and adults in plane recognition, air-raid warden training, use of rifles and emergency medical care. While there is greater confidence about peace in the future than in 1953, at the same time the Yugoslavs maintain intensive home-defense programs which counter-act their professions of peace. In this connection [redacted] the Yugoslav Government is basically opposed to West German rearmament because it imposes on Yugoslavia the obligation to take a public stand on an issue where "the government is divided". The Yugoslav Army's recent refusal to permit the Slovene Government to develop a large natural gas field in what it considered to be a strategic area is cited as further proof of the insincerity of the proponents of peace. Furthermore, Yugoslav Army Commissars are increasingly active. There has been a noticeable increase in the number and frequency of so-called orientation lectures.
11. [redacted]
12. With reference to the various members of the Executive Committee, it is reported that Aleksandar Rankovic is being built up by Tito where ever possible. However, Rankovic has no real popularity among the people and even with Tito's ardent endeavor, he is making little headway as a leader. Edvard Kardelj lost much prestige in the Djilas affair; he still feels the punishment was not severe enough. With the possible exception of Kardelj's efforts to go farther than normalization with the USSR which may have contributed to the Russian overture to Tito, Kardelj has very little

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to say regarding top policy decisions. These rest exclusively with Tito, who some consider has made concessions to the Kardelj wing in accepting Russian overtures. Koca Popovic and Kardelj are in basic opposition on many issues. Kardelj turned thumbs down to Koca Popovic's suggestion that Austria and Italy and Yugoslavia sit down together to discuss mutual economic interests in Trieste.

13. With regard to nationality antagonisms, it is reported that the antagonisms between Serb and Croat, Slovene and Montenegrin are more alive at the middle Party level than ever before. The top level leaders deny the existence of antagonisms but realize the problem is by no means solved. No figure is permitted to be a "strong man" in the individual republics; even the Croatian Prime Minister Bakaric has lost some of his authority. A strong Tito man, Bakaric has yielded certain of his powers in the economic sector to so-called economic "experts".

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